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SUMMARY

AN EMPIRICAL TEST ON THE EFFECT OF NEW FIRM'S LEGAL FORM ON VENTURE SURVIVAL

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Principal Topic

Young venture survival is a subject that has attracted the attention of many scholars in recent decades. This topic has been studied from multiple disciplines, with a clear proliferation of studies in the fields of management and economics. According to well known sociologists, not only, industry specific factors (Audretsch,1991), location patterns (Fotopulus and Louri, 2000) or firm strategies (Nichols-Nixon et al., 2000) determine venture performance, but also, the social legitimacy of organizations matter to explain why some young ventures survive longer than others.

The choice of a particular legal form at firm inception (i.e. limited liability company, public owned company, or a worker cooperative organization) has important legal implications (Malach et al, 2006), which presumably can influence the odds for survival of a young venture. The extant literature lacks studies that examine the relationship between the choice of a particular legal form at firm start-up and venture survival. The purpose of our study is twofold: firstly, to test the extent to which the choice of a particular legal form at firm inception influences venture survival, and secondly, to conduct a comparative study among firms with different social legitimacy arrangements.

Method

We selected the Basque region to conduct our empirical work since this is a region which shows a high diversity of companies with different legal forms (i.e. high presence of cooperatives, etc). Secondary data was collected from the Basque Institute of Statistics for the period 1992-2003. Our sample of 15.140 observations, where the unit of analysis is the firm, includes information about the longevity of the firms, their economic activity, location, and size. A survival Cox regression analyses was applied to test for young venture survival.

Results and Implications

Our results suggest that the legal form under which a firm is created affects business survival. The legal form selected by an entrepreneur for his or her organization has important implication in terms of financial burdens, tax obligations, worker owners' involvement in managerial positions, etc., which are important factors to understand why certain young ventures survive longer than others. In our study, contextual factors linked to social legitimacy issues were not found to be relevant to explain business survival.

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